

Message Text

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PAGE 01 STATE 021056
ORIGIN PM-04

INFO OCT-01 NEA-10 ISO-00 L-03 CIAE-00 INR-07 NSAE-00
AID-05 OMB-01 TRSE-00 /031 R

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DOD/DSAA - LTG. FISH
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R 311621Z JAN 77
FM SECSTATE WASHDC
TO AMEMBASSY KUWAIT
INFO DSAA JFMO LOWRY AFB CO
CSA
CNO
CSAF
USCINCEUR

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E.O. 11652: N/A

TAGS: MASS, LU

SUBJECT: COST ESTIMATES FOR FMS CASES

REF: KUWAIT USLOK 0254 DTG 151220Z JAN 77

1. WE UNDERSTAND DIFFICULTIES YOU ARE ENCOUNTERING IN
EXPLAINING FMS PRICE INCREASES TO THE KUWAITIS. YOU ARE NOT
ALONE. OTHER MISSIONS FACE SIMILAR IF NOT IDENTICAL
SITUATIONS.

2. PRIOR TO 15 FEB, ARMY AND NAVY WILL PROVIDE INFORMATION
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PAGE 02 STATE 021056

BY SEPARATE MESSAGES ON CURRENT FMS CASES FOR WHICH PRICE
INCREASES EXCEED TEN PER CENT OF CASE VALUE AS WELL AS
ESTIMATED CURRENT VALUE OF ALL PROPOSED CASES NOT YET
SIGNED BY GOK.

3. DSAA'S NEWLY ESTABLISHED JOINT FINANCIAL MANAGEMENT
OFFICE (JFMO) IS DEVELOPING THE CAPABILITY TO PRODUCE A

CASE BY CASE FINANCIAL FORECAST SHOWING CASH REQUIREMENTS FOR THE REMAINDER OF FY 77 AND FOR FY 78-79. THIS FORECASTING PROCEDURE WILL BE AUTOMATED IN APRIL 1977, AT WHICH TIME YOU WILL RECEIVE A QUARTERLY FORECAST OF CASH REQUIREMENTS FOR ALL REPEAT ALL KUWAITI CASES.

4. DESPITE USG'S BEST EFFORTS TO ANTICIPATE PRICE INCREASES AND TO ADVISE PURCHASING GOVERNMENTS IN ADVANCE, THERE MAY STILL BE OCCASIONS WHEN PRICE INCREASES WILL COME AS A SURPRISE TO FOREIGNERS. WAGE LEVELS AND ENERGY COSTS ARE MAJOR FACTORS DRIVING PRICES UPWARD. KUWAIT IN ADDITION HAS IN SOME INSTANCES SOUGHT THROUGH FMS TO PROCURE MATERIEL FOR WHICH THERE IS NO USG REQUIREMENT AND NO REQUIREMENT BY ANY OTHER FOREIGN GOVERNMENT. THOSE WHO PLACE ORDERS FOR PARTICULARIZED EQUIPMENT IN SMALL UNECONOMICAL QUANTITIES MUST EXPECT TO PAY PREMIUM PRICES; AND IT IS INCUMMENT ON USG AT ALL LEVELS TO APPRISE FOREIGN GOVERNMENTS OF THAT FACT BEFORE REPEAT BEFORE LOA IS SIGNED. PRICE ESTIMATES REPEAT ESTIMATES ARE BASED ON THE LAST PRICE PAID BY THE PROCURING ACTIVITY FACTORED UP BY AN ALLOWANCE FOR INFLATION AND OTHER JUDGMENTS. CERTAIN OTHER ESTIMATES HAVE ADMITTEDLY BEEN SIGNIFICANTLY LOWER THAN THE FINAL CONTRACT BILLINGS. SOME OF THESE PRICE HIKES HAVE RESULTED FROM GOK DELAY IN SIGNING CASES; OTHERS FROM CHANGES AND REVISIONS EFFECTED AT EXPLICIT GOK REQUEST. NO ONE CAN DETERMINE FINAL TOTAL COSTS OF SUCH REVISIONS AND ADD-ON'S UNTIL ALL COSTS INCURRED ARE ACCUMULATED, VALIDATED AND REDUCED TO CASE AMENDMENTS OR NEW CASES AS APPROPRIATE.

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PAGE 03 STATE 021056

5. WHEN SUITABLE OPPORTUNITY PRESENTS ITSELF, YOU SHOULD DISCREETLY CALL TO ATTENTION OF GOK OFFICIALS PARA 5 OF PART B OF THE DD 1513. THE PURCHASER, WHO, QUOTE SHALL REIMBURSE THE USG IF THE FINAL COST TO THE USG EXCEEDS THE AMOUNT ESTIMATED IN THE SALES AGREEMENT END QUOTE AND TO THE PROVISIONS OF PART C, INDEMNIFICATION AND ASSUMPTION OF RISKS, OF THE DD 1513 WHICH HOLDS, INTER ALIA, THAT THE USG ACTS ON A NON-PROFIT BASIS IN PROCURING AND FURNISHING THE ITEMS SPECIFIED. THE LAW DOES NOT ALLOW THE USG TO SUSTAIN A LOSS. MOREOVER, PRICE INCREASE NOTIFICATIONS DO NOT REQUIRE ACCEPTANCE BY THE GOK OR ANY FOREIGN GOVERNMENT. IF A FOREIGN PURCHASER OPPOSES AN INCREASE, HE HAS TWO ALTERNATIVES: TO REDUCE THE SCOPE OF THE ORDER; OR TO TERMINATE THE CONTRACT AND PAY THE RESULTANT COSTS.

6. THE THREE CASES CITED IN PARA 1 OF REFTTEL ARE ILLUSTRATIVE. THE RESPECTIVE SERVICES WILL BE PROVIDING

DETAILED EXPLANATIONS BY SEPARATE MESSAGES.

7. THIS IS A JOINT STATE/DEFENSE MESSAGE.

VANCE

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Message Attributes

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Sent Date: 31-Jan-1977 12:00:00 am
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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Event:
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